
From: Melnykovych, Andrew (PSC)
Sent: Monday, October 03, 2005 1:24 PM
To: 'john collingwood'
Subject: RE: Utility hike request by LG&E (case 2005-00401)

Mi Collingwood

I see what you're saying, and I'll pass it along for inclusion in the case file. The filing now has a case number 2005-00401.

Since the cost adjustments are based on forecast gas costs for three months out, which carries an element of unpredictability, any longer-term adjustment would be taking an even greater risk of over- or under-recovery, which would have, in the final analysis, just as bad an impact on rates, only for a longer time. At least with a three-month period, the companies can adjust to market swings and limit under- or over-recovery, and consumers would see immediate benefit once the gas costs come down. If the rates for the coming Nov-Jan period had been set three months ago, nobody would have seen these current prices coming, because the forecasts at that time were for increases in the range of 10-15%. So we'd be looking at major under-recovery adjustments for the next 12 months. (We've seen this in the past when companies missed their three-month forecasts.)

Given the volatility in the gas market, some utilities have chosen to adjust rates more frequently, either through regular monthly adjustments or through intricate adjustments at times of severe market swings. That has the advantage of reducing problems with under- or over-recovery, but also produces greater fluctuations in rates. So it's sort of a case of choose your poison.

There is no easy solution to this. Either demand has to drop or supply has to increase in the long term for the market to settle down.

Incidentally, I checked some figures and came up with the following:

LG&E's after-tax profit on its gas operations, per quarter: about \$4.5 million
LG&E forecast gas procurement costs for the next quarter: \$254 million

So even if LG&E were to forego the entire profit (thereby stopping dividends to its investors, etc) from its gas operations for the next quarter, the effect would be to lower gas bills by less than 2%.

Hope that clarifies things a bit more.

Andrew Melnykovych
Director of Communications
Kentucky Public Service Commission
502-564-3940 x208

From: john collingwood [mailto:colljn@hotmail.com]
Sent: Monday, October 03, 2005 11:56 AM
To: Andrew.Melnykovych@ky.gov
Subject: [WW Spam: medium] RE: Utility hike request by LG&E

Mr. Melnykovych,

Thanks again for your response and explanation. I guess the only thing that I could ask of the PSC, at this point, since this situation seems to be "fixed in stone" for LG&E, according to the laws and rules of the land: Perhaps the PSC could somehow ask LG&E to spread this increase over the next several years, so that their customers would not have such an increase in prices (64%) all in one year. Perhaps the increase could be moderated so that it will not create such a devastation on people's budgets. Then when prices (hopefully) do come down, when natural gas production increases in the Gulf, LG&E would still be permitted to get their cost offset that has been spread over those years, but taking into account the adjustment for the lowered prices. In other words, the lowered prices of the gas supply could be factored into the increase to the consumer, so that the consumer gets the benefit of the return to normalcy of gas prices, with taking the hit all at once. This would not hurt LG&E because they are still covering their increased costs, over a specified period, but also would cushion the impact somewhat to the consumer.

Am I making any sense?

Thanks.

John Collingwood

From: "Melnykovych, Andrew (PSC)" <Andrew.Melnykovych@ky.gov>
To: 'john collingwood ' <colljn@hotmail.com>
Subject: RE: Utility hike request by LG&E
Date: Sun, 2 Oct 2005 17:12:38 -0400
Mr. Collingwood-

Just to clarify-

LG&E is not permitted to earn any profit on their gas purchases. When the cost of gas decreases, companies ARE REQUIRED to lower their commodity charges, and the PSC ensures that they do. Furthermore, if they overrecovered for gas in any quarter, they are required to return that money back to ratepayers through an adjustment to current gas costs. As a point of fact, the LG&E adjustment proposed last week includes just such a refund component.

The only profit a company is allowed to earn is on the delivery charge portion of the bill, which makes up only about 20 percent of the total gas bill, with the profit margin a small portion of that. Eliminating a company's entire profit margin on gas would result in only a slight decrease in your overall gas bill.

It is the gas producers who are reaping higher profits in the current market, not the local delivery companies.

I hope that clarifies things.

Andrew Melnykovych

-----Original Message-----

From: john collingwood
To: Andrew.Melnykovych@ky.gov
Sent: 9/30/2005 11:34 PM
Subject: RE: Utility hike request by LG&E

Thanks for your prompt reply. All I can say is "what a business to be in!" You (LG&E) are a monopoly, have no competition. Your product is a commodity that is required by the public of all ages and classes for survival, and you can recover any increase in costs of your product on a "dollar-for-dollar basis". Certainly, we wouldn't want anything to effect LG&E's profit! It seems that the PSC just needs to get out that big rubber stamp, one more time.

Of course, in the best interest of Kentuckians, whom the PSC serves, I am sure that when the cost of the product decreases, that our rates will go DOWN on a "dollar-for-dollar basis" as well. Or will LG&E come up with some new numbers for you to review to show why they need to keep energy prices high, like they've done in the past! Who knows, there might be an earthquake someday...let's raise prices now, just in case!

Thanks to the PSC for looking out for the public's best interest in these matters!

John Collingwood

From: Andrew.Melnykovich@ky.gov
To: COLLJN@HOTMAIL.COM
Subject: RE: Utility hike request by LG&E
Date: Fri, 30 Sep 2005 14:08:45 -0400

Mr. Collingwood:

Your comments have been received and will be placed into the case file.

However, you should be aware that this is a pass-through of LG&E's cost of purchasing gas for delivery to its customers. Gas distribution companies are entitled to recover their wholesale costs on a dollar-for-dollar basis. This increase does not produce higher profits for LG&E. Wholesale costs, which were deregulated by the federal government more than 25 years ago, are driven by market conditions. The wholesale cost of natural gas has been rising for more than two years and that increase has steepened recently as supply has not kept pace with demand. Even before hurricanes Katrina and Rita, gas costs were going to be sharply higher this winter. The hurricane damage along the Gulf Coast, which is the source of most of the gas used in Kentucky, has simply made a bad situation worse. At present, most of the gas production and transportation facilities along the Gulf Coast are shut down.

The PSC has no authority over wholesale prices. Companies seeking a wholesale cost adjustment are required to submit detailed cost information to the PSC. The filings are available on our Web site, psc.ky.gov. LG&E's application for a wholesale cost adjustment will receive a careful review to ensure that it is proper and accurate.

Andrew Melnykovich
Director of Communications
Kentucky Public Service Commission
502-564-3940 x208

From: PSC - Public Information Officer
Sent: Friday, September 30, 2005 2:06 PM
To: Melnykovich, Andrew (PSC)
Subject: FW: Utility hike request by LG&E
Importance: High

From: john collingwood[SMTP:COLLJN@HOTMAIL.COM]
Sent: Friday, September 30, 2005 2:05:54 PM
To: psc.info@ky.gov
Subject: Utility hike request by LG&E
Importance: High
Auto forwarded by a Rule

I would like to strongly urge and request the Public Service Commission to deny the request of LG&E to raise their rates on natural gas and/or electricity to the public. After experiencing the last raises by LG&E, I am hardly able to pay my utility bills now...and I am very conservative with my thermostat already, and have an energy efficient home otherwise.

LG&E executives are always at the top of the list when it comes to income and perks, and many other employees have very good salaries and benefits there...much more than the KY average!

Yet, whenever their costs go up, they run to the PSC for a rate increase, instead of doing what most companies (that aren't monopolies) do, and tighten their own belts, with layoffs, decreased salaries and

perks of the executives, etc., etc.

Why does the public always have to pay for their increased costs of doing business???

I do not have to tell you that with increased gasoline costs, food costs, etc., etc., the average Kentuckian just cannot afford to pay the exhorbitant rates that they are requesting. If you allow this, you are going to see even more foreclosures, unpaid credit cards, homeless, and everything else that goes with not having enough to make ends meet!

Thank you for your consideration, please!

John Collingwood

2307 Claymore Circle

Louisville, KY 40245